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University of Alberta
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Edmonton, Alberta T6G 2R6

AUDITOR'S REPORT TO THE SHAREHOLDERS

ALHAMBRA RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1994

As requested
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I conducted an audit in accordance with generally accepted auditing standards and have obtained all the information and explanations I have required. These standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

T. A. Baker

CHARTERED ACCOUNTANT

Calgary, Canada
June 13, 1995

TED BEALES PROFESSIONAL CORPORATION

Telephone (403) 245-6677
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Chartered Accountant
1603 - 10th Avenue S.W.
Calgary, Alberta T3C 0J7

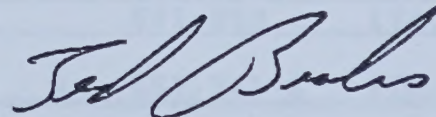
AUDITOR'S REPORT TO THE SHAREHOLDERS

To the Shareholders of
Alhambra Resources Ltd.

I have audited the consolidated balance sheet of Alhambra Resources Ltd. as at December 31, 1994 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards and have obtained all the information and explanations I have required. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Calgary, Canada
March 13, 1995

CHARTERED ACCOUNTANT

ALHAMBRA RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
As at December 31, 1994 and 1993

	1994	1993
ASSETS		
CURRENT		
Cash	\$ 36,081	\$ 117,708
Accounts receivable	122,675	2,040
Income taxes recoverable	2,497	
Due from joint venture participants	65,705	
Prepaid expenses and drilling advances paid	12,378	
	239,336	119,748
CAPITAL ASSETS (Note 3)	613,405	
OTHER		
Deferred project evaluation costs		19,068
Deposit paid toward investment acquisition		40,000
		59,068
	\$ 852,741	\$ 178,816
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 184,588	\$ 4,244
Notes payable to affiliates	30,000	
	214,588	4,244
DEFERRED INCOME TAXES	40,000	
DEFERRED ABANDONMENT AND RESTORATION COSTS	1,100	
	255,688	4,244
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 4)	608,646	190,350
DEFICIT	(11,593)	(15,778)
	597,053	174,572
	\$ 852,741	\$ 178,816

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

ALHAMBRA RESOURCES LTD.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
For the Year Ended December 31, 1994

	1994	1993
REVENUE		
Petroleum and natural gas sales	\$ 64,426	\$
Petroleum and natural gas royalties	79,772	
Alberta royalty tax credits	237	
Interest and other	10,611	4,293
	<u>155,046</u>	<u>4,293</u>
EXPENSES		
Operating	29,597	
Royalties - Crown	310	
Royalties - Resource	7,846	
General and administrative	31,305	19,984
Interest	255	87
Depletion, depreciation, and abandonments	56,548	
	<u>125,861</u>	<u>20,071</u>
Income (loss) before taxes	29,185	(15,778)
INCOME TAXES - DEFERRED	<u>25,000</u>	
NET INCOME (LOSS)	4,185	(15,778)
DEFICIT, beginning of year	(15,778)	
DEFICIT, end of year	<u>\$ (11,593)</u>	<u>\$ (15,778)</u>
 Net income (Loss) per share	 <u>\$ 0.01</u>	 <u>\$ -</u>

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1994

	1994	1993
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net income (loss) for the year	\$ 4,185	\$ (15,778)
Items not affecting cash		
Depreciation, depletion and abandonments	56,548	
(Gain) loss on sale of capital assets	297	
Deferred income taxes	25,000	
	86,030	(15,778)
Decrease (increase) in current assets		
Accounts receivable	(120,635)	(2,040)
Income taxes recoverable	(2,497)	
Due from joint venture participants	(65,705)	
Prepaid expenses and drilling advances paid	(12,378)	
Increase (decrease) in current liabilities		
Accounts payable and accrued liabilities	180,344	4,244
	65,159	(13,574)
FINANCING ACTIVITIES		
Advances from affiliates	30,000	
Issue of shares for cash, net of share issue cost of \$2,305 (1993 - \$32,150)	262,295	190,350
Issue of shares for other than cash - purchase of petroleum properties through the purchase of 100% of Taurus Resources Ltd. (now Tarco Oil and Gas Ltd.)	156,000	
	448,295	190,350
INVESTING ACTIVITIES		
Project evaluation costs incurred	19,068	(19,068)
Deposit paid towards purchase of investment	40,000	(40,000)
Net (purchase) of capital assets	(654,149)	
	(595,081)	(59,068)
INCREASE (DECREASE) IN CASH POSITION	(81,627)	117,708
Cash, beginning of year	117,708	
CASH, END OF YEAR	\$ 36,081	\$ 117,708

See accompanying notes to consolidated financial statements.

ALHAMBRA RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 1994

1. INCORPORATION

The Company is incorporated under the laws of the Province of Alberta on January 27, 1993 and is listed on the Alberta Stock Exchange.

2. ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Tarco Oil and Gas Ltd.

b) Capital assets and depletion

The Company follows the full cost method of accounting for oil and gas properties whereby all costs of exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non productive wells, and overhead expenses related to exploration activities. All recoveries of costs through sale of petroleum and natural gas properties are credited against the cost of oil and gas properties. Gains or losses are only recognized when a significant portion of the company's reserves are disposed of.

Costs are amortized using the unit of production method based upon management estimates of proven developed reserves, converted to equivalent units on the bases of energy content.

In applying the "full cost" method, the company calculated a "cost centre ceiling" which restricts the capitalized costs less accumulated depletion and depreciation in each cost centre from exceeding an amount equal to the estimated future net revenues from proved reserves (after adjusting for estimated future general and administration cost and corporate income taxes, if any) plus the lower of cost and estimated fair value of the company's undeveloped average.

In calculating the "cost centre ceiling", the company used average prices of the preceding twelve months which amounts to \$130 per cubic meter for oil and \$70 per thousand cubic meters for gas.

Where capitalized costs exceed the "cost centre ceiling", the excess costs are written off as additional depletion which amounts to \$nil for the current year.

ALHAMBRA RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended December 31, 1994

2. ACCOUNTING POLICIES

b) Capital assets and depletion (continued)

Depreciation of petroleum and natural gas production equipment is provided on the unit of production method based upon estimated proven developed reserves.

c) Joint venture interests

Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

d) Income taxes

The Company records income taxes on the tax allocation basis. Under this method, income taxes relating to earnings currently recognized for accounting purposes but not for income tax purposes are fully provided. The deferred income taxes so provided result primarily from timing differences in the recording of depletion of capital assets for accounting purposes versus capital cost allowance taken for income tax purposes.

3. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 1994	1993
Canada:				
P&NG properties including equipment thereon	\$ 668,726\$	55,321\$	613,405\$	

ALHAMBRA RESOURCES LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For The Year Ended December 31, 1994

4. SHARE CAPITAL

Authorized: An unlimited number of common voting shares
 An unlimited number of preferred non voting shares

	Number of Shares	Dollar Value
Issued: Common shares		
Balance outstanding at December 31, 1993	3,500,000	\$ 222,500
Issued for cash to Directors pursuant to the Directors and Management Stock Options	350,000	35,000
Issued to for cash to the company's Agent pursuant to the Agents Option	170,000	17,000
Issued for cash pursuant to a private placement	708,669	212,601
Issued in consideration for 100% of the outstanding shares of Taurus Resources Ltd. (now Tarco Oil and Gas Ltd.)	520,000	156,000
	5,248,669	643,101
Less share issue costs		34,455
Balance at December 31, 1994	5,248,669	608,646

During the year all outstanding stock option agreements were exercised

